

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF B & H GAS COMPANY, INC.)
FOR APPROVAL OF FINANCING PURSUANT TO)
KRS 278.300 AND FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY TO CONSTRUCT)

CASE NO.
94-513

O R D E R

On December 15, 1994, B & H Gas Company, Inc. ("B & H Gas") applied for authority to borrow \$407,588.90 from the Department of Local Government ("DLG") and for a Certificate of Convenience and Necessity to construct certain natural gas distribution facilities located in Floyd County, Kentucky.

The DLG note would be secured by a lien on the assets of the system and would bear interest at 4 percent per annum with a life of 30 years. The proceeds of the DLG loan would be used to finance an estimated \$306,560.90 in proposed construction. The remaining loan proceeds would be used to refinance a 6 year note outstanding to First Guaranty National Bank ("First Guaranty Note") in the amount of \$101,028.00 bearing interest at 9 percent per annum.

The First Guaranty Note was negotiated on March 25, 1994 and the proceeds of this loan were used to refinance a 1989 loan totalling \$64,349.19 outstanding at 10.5 percent and to pay for pipe and materials needed in order to make emergency repairs to correct safety hazards at a cost of \$40,000.

B & H Gas has stated that it will be able to service the proposed DLG debt without increasing its rates to customers. The

annual debt service on the DLG debt will be \$74.14 per customer compared to the current annual debt service requirement of \$71.00 for the First Guaranty Note. Additionally, as a result of the construction, B & H Gas expects to significantly reduce its costs associated with line loss. The Commission notes that, as of December 31, 1994, B & H Gas reported an operating loss of \$91,549 for the year, had accumulated a total deficit of earnings of \$489,730, and had accumulated \$500,281 in past due gas purchases.¹ Absent significant increases in revenues or decreases in operating expenses, it appears B & H Gas will be forced to continue deferring its payment of its gas purchases to its affiliate, B & S Oil.

B & H Gas proposes to replace its existing gas distribution facilities which range in age from 38 to 45 years. By replacing the steel pipe in its system, the corrosion control problem previously cited by the Commission's Gas Pipeline Safety Branch will be eliminated. Corrosion on the steel pipe has contributed to leaks on the system causing a line loss ranging from 10 to 20 percent during the period 1992 through 1994.

Bid documents and specifications for the project² indicate the construction will include installation of approximately 132,000 feet of plastic pipe and related facilities. No pipe will be installed on new routes; only present locations of existing pipeline will be utilized. B & H Gas proposes to use plastic pipe

¹ 1994 Annual Report on file with Commission.

² Included in the specifications and contract Documents for Gas System Construction for B&H Gas Company, Inc., submitted January 25, 1995.

manufactured by Plexco, Inc., and include standard and coated locator wire with the installation of the Plexco pipe.

Bids for the construction were received from Bud Rife Construction, Inc. ("Bud Rife"), Lenox, Excavation, Inc. and East Kentucky Water, Inc. Bud Rife was awarded the contract since its bid of \$218,000 was the low bid.

The Commission, after consideration of the evidence of record and being advised, finds that:

1. The proposed loan from DLG is for lawful objects within the corporate purposes of B & H Gas, is necessary and appropriate for and consistent with the proper performance by B & H Gas of its service to the public, and will not impair its ability to perform that service.

2. The proceeds from the proposed loans should be used only for the lawful purposes set out in B & H Gas's application.

IT IS THEREFORE ORDERED that:

1. B & H Gas be and it hereby is authorized to borrow \$407,588.90 from DLG for a 30-year period bearing interest at 4 percent per annum for the purposes set out in its application.

2. B & H Gas shall file a copy of the loan release once it has paid the First Guaranty Note.

3. B & H Gas is hereby granted a certificate of convenience and necessity to construct the proposed pipelines and related facilities referenced herein.

4. B & H Gas shall file with the Commission a copy of the final construction contract and the construction schedule no later than 15 days prior to the commencement of construction.

5. B & H Gas shall file with the Commission the actual cost of the construction and as-built drawings of the system no later than 3 months from the date of completion of the work.

Done at Frankfort, Kentucky, this 29th Day of August 1995.

By the Commission

ATTEST:



Executive Director

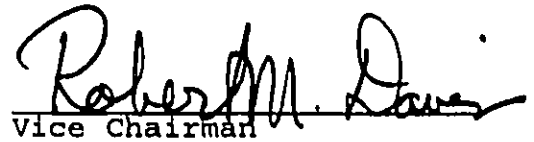
4. B & H Gas shall file with the Commission a copy of the final construction contract and the construction schedule no later than 15 days prior to the commencement of construction.

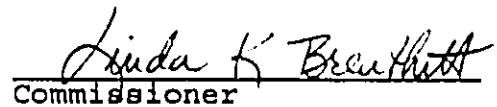
5. B & H Gas shall file with the Commission the actual cost of the construction and as-built drawings of the system no later than 3 months from the date of completion of the work.

Done at Frankfort, Kentucky, this 29th Day of AUGUST 1995.

PUBLIC SERVICE COMMISSION

Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director